



CREDIBILITY DEFICIT WIDENS WITH PRESIDENT'S THIRD "BUDGET" IN SEVEN MONTHS
PRESIDENT'S "MATH" DOESN'T ADD UP

September 21, 2011

In the span of seven months, President Obama has offered three different budget plans for the federal government. He offered an actual budget in February, a budget "framework" in April, and yet another tax-and-spend plan this past week (more spending in the "American Jobs Act"; more taxes in a new plan unveiled yesterday). Unfortunately, none of these approaches has provided the kind of leadership that America needs to lift the crushing burden of debt while promoting sustained economic growth.

The following House Budget Committee analysis unpacks the President's widening credibility deficit – on taxes, spending, debt, and gimmicks.

TAX HIKES ON JOB CREATORS: Contrary to claims of "balance," the President's latest tax-and-spend plan is dominated by higher taxes. Not including war spending and estimated savings in debt-service costs, 80 percent of the deficit-reduction claims take the form of higher taxes. At a time when economic growth remains stagnant and private-sector job creation remains elusive, the President's calls for tax increases are deeply misguided.

DOUBLES DOWN ON HEALTH CARE RATIONING: This Administration's misguided approach to health care spending is most evident in its doubling down on the President's new health care law. Instead of offering a plan to save and strengthen critical health and retirement security programs so that government can keep its promises to current and future generations, the proposal claims that 90 percent of its Medicare savings will come from the same kinds of price controls that have failed in the past. If tried on the scale that the President wants, these restrictions would result in reduced access and denied benefits for current seniors.

LACK OF CREDIBILITY REVEALS DEEPER FLAWS: Rebutting criticism of a plan marked by divisive substance and marketed with partisan rhetoric, President Obama said yesterday: *"It's not class warfare. It's math."* The President's comments demand attention to the numbers. And the numbers underscore this President's lack of fiscal seriousness. Because of empty promises made by politicians of both political parties, the federal government faces tens of trillions of dollars in unfunded liabilities. The President has called for even higher taxes and deeper Medicare cuts – yet "math" reveals that he is still not being honest with the American people on what will be needed to seriously confront our looming fiscal crisis.

The unavoidable truth of the matter is that this President remains wedded to an unsustainable trajectory of government spending. The tax increases and Medicare price controls he has proposed are insufficient to match the spending he's promised.

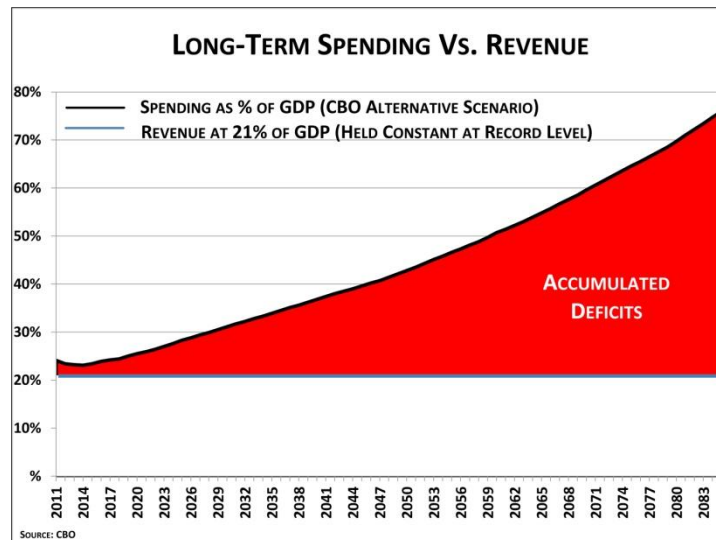
THE MERCILESS "MATH"

The President insists that his demands for tax increases on 0.3% of the population are not driven by ideology, but rather by "math." In his remarks in the Rose Garden yesterday, he continued: "The money has to come from some place." So let's examine the "math":

- From a pure numbers perspective, there is not enough income at the top of the earnings scale to solve our fiscal challenge over the short or long term. The top 3 percent of earners, those making \$250,000 or more, have about \$2.3 trillion in total annual income¹. Even if we *confiscated* that money with a 100 percent tax rate, it would only fund the government this year for just over six months. The 400 wealthiest Americans have a combined net worth of about \$1.4 trillion – confiscating that income would fund the government for about 4.5 months².
- Going after "the rich" ensnares successful small businesses which pay taxes at the top individual rates (50 percent of small-business profits are taxed at the top two individual tax rates). Raising taxes on these small businesses hinders economic growth and job creation – small businesses account for roughly two-thirds of net new jobs. While it's never a good idea to raise taxes on successful job creators, this strategy is especially troubling in the current slow-growth/ high-unemployment economy.
- Top tax rates are already set to climb much higher by virtue of the President's health care legislation. In 2013, when economists tell us the unemployment rate will still be above 8.5 percent, the Administration's tax policy would push the top effective tax rate to 44.8 percent from its current level of 35 percent.

Even if tax revenue as a share of the economy were to grow in excess of its historical average, tax increases simply cannot match the spending commitments of the federal government in the years ahead. Based on Congressional Budget Office (CBO) projections of their likely policy trajectory, government spending is on pace to double within a generation, and eclipse 75 percent of the entire economy later this century (see Figure 1). As the *Washington Examiner's* Philip Klein observed: "No amount of rhetoric by [President] Obama is going to change the numbers."³ In other words: "It's math."

Figure 1



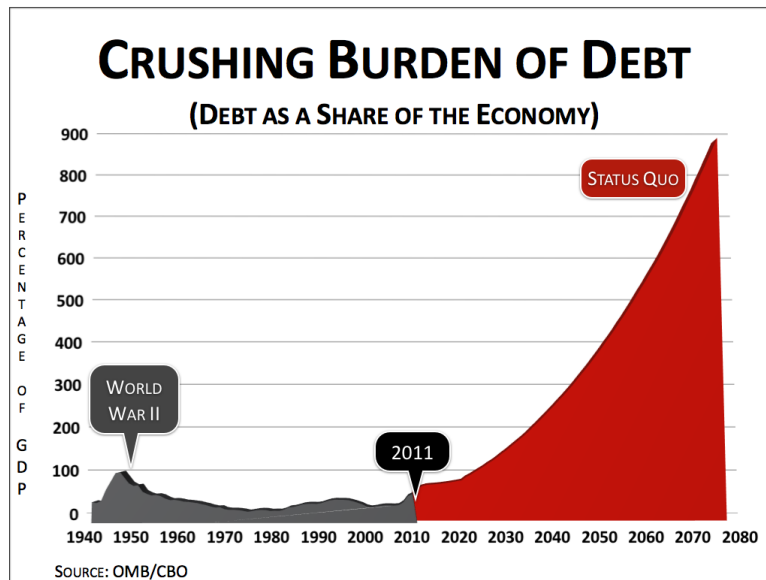
¹ Internal Revenue Service. "SOI Tax States." <http://www.irs.gov/taxstats/indtaxstats/article/0,,id=98123,00.html>. Accessed September 20, 2011.

² Ford, Sabrina. "Bill Gates still richest American, Forbes says" Reuters. September 22, 2010. <http://www.reuters.com/article/2010/09/22/us-forbes-idUSTRE68L64Y20100922>

³ Klein, Philip. "Why the Obama deficit approach won't work." *Washington Examiner*. September 19, 2011. <http://campaign2012.washingtonexaminer.com/blogs/beltway-confidential/why-obama-approach-won%E2%80%99t-reduce-deficits>

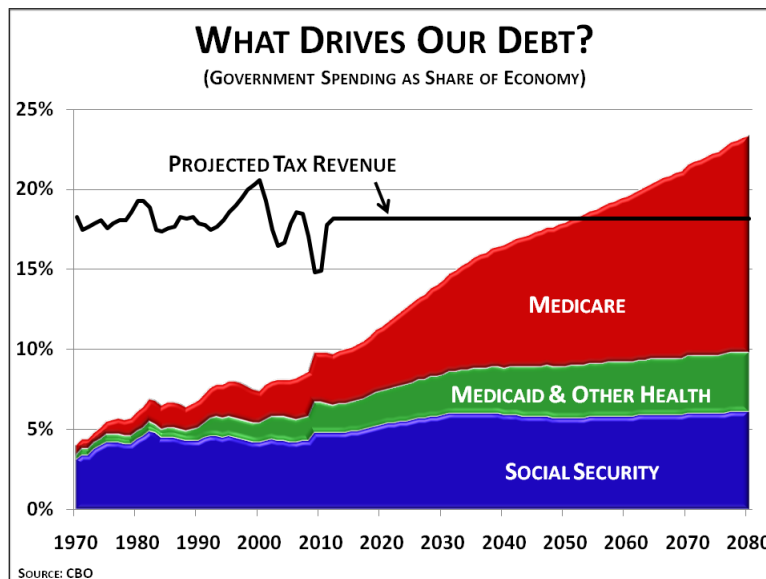
Each year government spending continues to outpace revenue, the federal government must borrow the difference. These annual budget deficits add to the national debt. On the current path, CBO projects that debt held by the public will overwhelm the entire economy within the decade.⁴ While an economic crisis would hit far earlier, the current trajectory has debt rising above 800 percent of Gross Domestic Product (GDP) in CBO's long-term forecasts.⁵ As economists have made clear, this debt overhang not only threatens the next generation, but severely impairs economic growth and job creation today (see Figure 2).⁶

Figure 2



The federal government's debt challenge is a function of the explosive growth of entitlement spending, specifically the health care entitlements: Medicare, Medicaid, and most recently trillions of dollars of additional obligations stemming from the enactment of the President's health care law (see Figure 3).

Figure 3



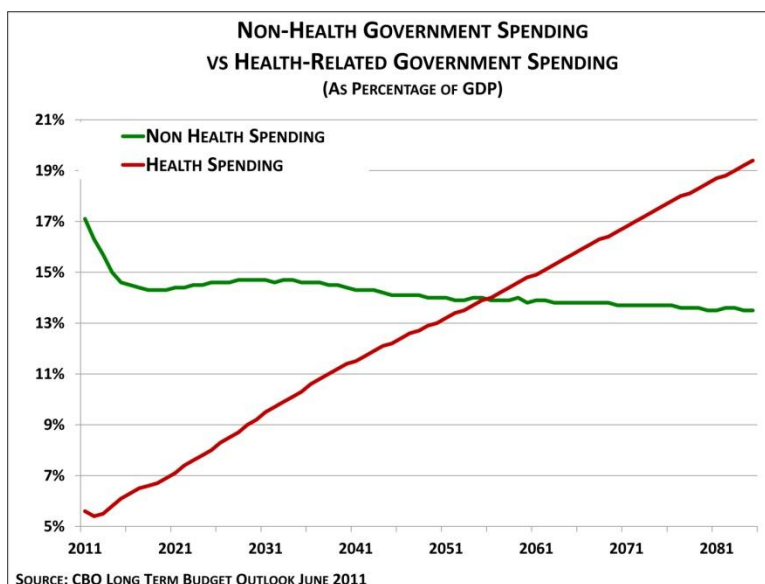
⁴ "CBO's 2011 Long-Term Budget Outlook." Congressional Budget Office. June 2011. <http://www.cbo.gov/doc.cfm?index=12212>

⁵ "Federal Debt and the Risk of A Fiscal Crisis" Congressional Budget Office. July 27, 2010. <http://www.cbo.gov/doc.cfm?index=11659>

⁶ "The Debt Overhang and the U.S. Jobs Malaise." House Budget Committee analysis. July 7, 2011 <http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=250375>

Medicare, Medicaid, and additional government health spending programs will soon eclipse all other government spending. According to Figure 4, non-health related government spending as a share of the economy is on pace to slowly decline in the decades ahead, while government's spending on health care as a share of the economy explodes.

Figure 4



Currently, health care spending is growing twice as fast as economic growth. General revenue required to finance Medicare is expected to grow from \$280 billion in 2011 to \$468 billion in 2021. In future years, total federal health spending is expected to grow from 5.6 percent of GDP to nearly 20 percent of GDP – almost equal to the post-World War II average for the entire federal government. This is clearly unsustainable.

The exploding cost of health care is bankrupting the country, yet among the primary drivers of health inflation is the structure of the government's open-ended health care entitlement programs.

Decades of Medicare price controls have failed to control spending. Instead of cutting costs, they encourage providers to bill for more services each year. Many experts – from both sides of the aisle – believe that the Medicare Fee-For-Service (FFS) system is a major reason for the explosion of costs in American health care.

Medicare reimburses providers for their services without question, without concern for quality and without thought to cost. This top-down delivery system exacerbates waste in the health care system, as none of the primary stakeholders has a strong incentive to reduce waste.

Politicians' repeated efforts to patch this problem without reforming the structure of the subsidy have amounted to one failure after another. Time and again, Congress has sought to apply band-aids by reducing the rate at which doctors and hospitals are reimbursed for treating Medicare patients. These repeated fee reductions have had two consequences: Providers have either increased the volume of services they provide for each condition, leading to waste, fraud and abuse; or they have stopped accepting Medicare patients, limiting access for seniors.

Despite these misguided interventions, the rising cost of Medicare continues unabated. Today, Medicare spending is growing at a rate of 7.2 percent every year. This is more than twice the rate at which the nation's economy is growing. The unchecked growth of the Medicare program threatens not only the federal budget, but also, more critically, the very health security of millions of American seniors. In testimony before the House

Budget Committee, Department of Health and Human Services Secretary Kathleen Sebelius made clear: “I would say that the current fee-for-service system, yes, is unsustainable.”⁷

Another major health care entitlement – Medicaid – has fallen victim to the same trend: an open-ended commitment that drives up costs, coupled with misguided price controls that restrict access. There is no limit on the federal government’s matching contributions to state spending, so state governments “spend most of their energy devising ways to ‘maximize’ how much they get from the federal government,” while seeking to minimize their own share of the tab.⁸ The program’s mandates and misaligned incentives have driven up spending at such a rate that Medicaid is now estimated to replace elementary and secondary education as the largest component of total state spending. In an effort to restrain costs, policymakers have sought to reduce payments to providers, resulting in Medicaid beneficiaries finding it increasingly difficult to find access to quality care.

The structural problems with Medicare and Medicaid, along with the discriminatory tax treatment of health insurance, all serve as key contributors to health inflation. The failure to reform these government policies has pushed affordable coverage out of reach for millions of Americans, eroded workers’ paychecks for those with coverage, and exacerbated the fiscal challenges at the federal, state, and local levels of government.

THE PRESIDENT’S HEALTH OVERHAUL MAKES MATTERS WORSE

Despite being sold as a serious attempt to tackle the problem of health inflation, the President’s health care law was anything but. Its primary focus was on expanding coverage via government subsidies, instead of making coverage more affordable with reforms that promote competition and choice. With its maze of mandates, dictates, controls, tax hikes and new entitlements, the flawed new law will push costs even further in the wrong direction:

- Already, providers have announced big premium hikes related to the law’s new mandates.⁹
- Given the law’s warped incentives, experts have warned that it makes more economic sense for employers to simply drop health insurance coverage for their employees.¹⁰
- Thousands of firms and organizations have sought waivers to escape the law’s onerous mandates.¹¹
- At a time when job creation is desperately needed, the law imposes \$800 billion of new taxes.¹²
- Instead of repairing Medicare, the new law raids Medicare of over half a trillion dollars and spends that money on new health care entitlements.¹³
- The new law empowers a panel of bureaucrats to cut Medicare spending in ways that will jeopardize seniors’ access to care.¹⁴
- The law dramatically expands a Medicaid program that is already failing its beneficiaries,¹⁵ breaking state budgets,¹⁶ and adding to a growing flood of red ink at the federal level.¹⁷

⁷ “The Future of Medicare.” House Budget Committee hearing highlights. July 12, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=251388>

⁸ Capretta, James. “Fulfilling the Mission of Health and Retirement Security.” Testimony before the House Budget Committee, March 17, 2011.

<http://budget.house.gov/UploadedFiles/caprettatestimony3172011.pdf>

⁹ Graves, Bill. “22 percent rate increase by Regence BlueCross BlueShield of Oregon brings out strong protest.” *The Oregonian*. June 2, 2011.

http://www.oregonlive.com/health/index.ssf/2011/06/22_percent_rate_increase_by_re.html

¹⁰ Singhal, Shubham, Jeris Stueland, and Drew Ungerman, “How US health care reform will affect employee benefits.” McKinsey Quarterly, June 2011.

http://www.mckinseyquarterly.com/How_US_health_care_reform_will_affect_employee_benefits_2813

¹¹ Approved Applications For Waivers. Centers for Medicare and Medicaid Services.

http://cciiio.cms.gov/resources/files/approved_applications_for_waiver.html

¹² Congressional Budget Office letter to Speaker John Boehner, February 18, 2011: <http://cbo.gov/ftpdocs/120xx/doc12069/hr2.pdf>

¹³ “The Fiscal Consequences of the New Health Care Law.” House Budget Committee hearing highlights. January 26, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=221744>

¹⁴ “Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers.” Centers for Medicare and Medicaid Services. May 13, 2011. <http://www.cms.gov/ReportsTrustFunds/Downloads/2011TRAlternativeScenario.pdf>

The President and his party's leaders are deeply committed to the bureaucratic vision of health care represented by their new health care law. They have greeted efforts to move federal health care policy in the direction of greater competition and choice with demagoguery and derision. It remains difficult to build bipartisan health care reform on top of a partisan health care law. Because of the Democrats' intransigence on health care, their "grand bargain" proposals usually sidestep the politically difficult question of how to control government spending on health care. Too often, efforts to chart a sustainable fiscal path rely on artificial savings targets, as opposed to actual policy reforms that would reduce health care spending in the future.

Rather than clinging to an unsustainable status quo, it is imperative that policymakers advance patient-centered reforms – fixing what's broken in health care without breaking what's working. In Medicare, this means giving seniors the power to choose from a list of Medicare approved and subsidized coverage options, like the system that members of Congress enjoy. In Medicaid, it means returning authority over the program to the states and giving them the flexibility to tailor their programs to the diverse needs of their unique populations. And for all Americans, it means making health insurance more portable and more affordable by personalizing the tax credit for health insurance.

THE PRESIDENT'S LATEST BUDGET PLAN: STRIKE THREE

The President remains firmly wedded to his unaffordable vision on health care. Unwilling to consider approaches that deal with the root drivers of health inflation, his budget proposals are unable to conform to basic math. There is no degree of taxation that can match the spending promises made by this Administration without inflicting irreparable economic damage. Government spending as a share of our economy is on pace to double by mid-century, and will consume 75 percent in the decades to follow.

THE MISGUIDED APPROACH ON HEALTH CARE

Instead of proposing much needed reforms to health entitlement programs, the President instead doubles down on the top-down price controls from his health care plan.

- The President's health care law already cut well over \$500 billion from Medicare for current seniors – and the President is again seeking to impose cuts on doctors and other healthcare providers that will further restrict patient access to care. His proposal strengthens the government-rationing board, known as the Independent Payment Advisory Board (IPAB), giving this board of fifteen unelected bureaucrats even more authority to slash Medicare spending and reduce access to care for seniors enrolled in Medicare today.
- The President's law instructs IPAB to hold the growth of Medicare spending to GDP + 1 percent by reducing reimbursements to health-care providers. Unless overturned by a supermajority in Congress, the recommended cuts dictated by this board become law. His new proposal would double down on IPAB by instructing it to hold Medicare's growth rate to GDP + 0.5 percent. To put that in context, Medicare is projected to grow at 6.3 percent per year – which, at the rate the economy is growing under this President, is equal to GDP + 4 or 5 percent.

¹⁵ "Auditing Access to Specialty Care for Children with Public Insurance." Joanna Bisgaier, M.S.W., and Karin V. Rhodes, M.D. June 16, 2011.

<http://www.nejm.org/doi/full/10.1056/NEJMs1013285>

¹⁶ "Medicaid Expansion in the New Health Law: Costs To The States." Joint Report of Senate Finance Committee and House Energy and Commerce Committee. March 2011. <http://energycommerce.house.gov/media/file/PDFs/030111MedicaidReport.pdf>

¹⁷ Medicaid Program (Fact Sheet). Government Accountability Office. http://www.gao.gov/highrisk/risks/insurance/medicaid_program.php

- Medicare's non-partisan chief actuary, Richard Foster, has been clear on this point: Going from 6 percent growth to either 3 percent **or** 2.5 percent, using only the blunt tools that the President wishes to give to IPAB, would simply drive Medicare providers out of business, resulting in harsh disruptions and denied care for seniors.
- The House-passed budget offers a better way to save Medicare from impending insolvency. Instead of using cram-downs that simply pay providers less than the going rate, the budget proposes real reforms designed to slow the growth of health-care costs economy-wide by promoting choice and competition. Empowering seniors, not bureaucrats, is the best way to save and strengthen Medicare.
- At a House Budget Committee hearing last January, Foster, testified that he has more confidence in the ability of these kinds of premium-support reforms to "make lower costs like this possible and more sustainable," and less confidence in the ability of the President's new law to achieve that same goal.¹⁸ At another hearing last July, Foster confirmed this point: "We've estimated for many years that competition among plans in a premium-support setting like this could have advantages and lead to somewhat lower costs for Medicare. It can get you to the lowest cost consistent with good quality of care."¹⁹

The President continues to avoid offering serious proposals to save Medicare from its looming collapse.

- Despite \$224 billion in price controls and \$24 billion in beneficiary cuts, the President's proposal simply puts off Medicare's financial collapse for another three years. Much like his February budget and his April deficit speech, this proposal continues to ignore the greatest fiscal threat to America's economy and seniors' health security. The contrast with the House GOP Budget could not be clearer: the President's plan restricts access and cuts benefits for current seniors while bankrupting the program for the next generation. The House GOP Budget makes no changes for those in or near retirement, while offering more choices and a strengthened program for next generation.

The President's proposal fails to address the biggest driver of state budget problems – Medicaid.

- Rather than providing states with the flexibility they need to make Medicaid work, the President instead has proposed cutting \$66 billion from a program that is already failing both states and beneficiaries. Uncompromising federal mandates, miles of bureaucratic red tape, and a fundamentally broken payment system have made Medicaid the most expensive program states must manage. Worse, only 53 percent of physicians are accepting all or most new Medicaid patients while 28 percent are accepting no Medicaid patients at all. Because of Medicaid's price controls, physicians are more likely to reject a Medicaid patient than they are a Medicare patient. By cutting payments to providers and continuing to shackle states to rigid federal mandates, the President's plan will exacerbate the problems vulnerable Medicaid beneficiaries have experienced in accessing care.

MORE TAXES

The President proposes \$1.57 trillion in higher taxes in the midst of the slowest economic recovery in recent memory. While these tax hikes are leavened somewhat by his proposals to extend and expand certain tax relief that was agreed to on a bipartisan basis at the end of 2010, today's proposal offers temporary tax rebates in exchange for permanently higher taxes on job creation.

- While the proposal purports to increase "job creation and growth in the U.S." the particular tax proposals would actually have the opposite effect. For instance, the plan would raise taxes on those with household income above \$250,000, but this tax hike would also ensnare the successful small businesses which pay

¹⁸ "The Fiscal Consequences of the New Health Care Law." House Budget Committee hearing highlights. January 26, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=221744>

¹⁹ "Medicare and Social Security: The Fiscal Facts." House Budget Committee hearing highlights. July 13, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=251905>

taxes at individual tax rates (roughly 50 percent of small business profits are taxed at the top two individual tax rates). These small businesses are the engines of job creation in our economy. Coupled with the new tax increases slated to take effect in the President's health care legislation, this proposal would boost the top individual tax rate from its current level of 35 percent to nearly 45 percent in 2013. This large tax hike on our successful job creators will have a chilling effect on growth and employment.

- The plan rightly points out that our tax code is in desperate need of reform. It is riddled with loopholes, credits and deductions that make the tax system unfair, highly complex and a drag on economic growth. But the proposal would simply close certain politically unpopular loopholes in the tax code (deductions for oil and gas producers, tax breaks for corporate jet owners, etc.) in order to partly fund short-term spending measures put forth in the President's American Jobs Act. This is not tax reform. Rather than picking winners and losers through the tax code, the goal of tax reform should be to curb or eliminate tax preferences *economy-wide* and use those savings to lower tax rates across the board. This is the only recipe for sparking real economic growth and job creation through the tax code.
- The plan advocates a so-called "Buffet Rule" guaranteeing that those earning over \$1 million pay at least the same effective tax rate as the middle class. As reported in an Associated Press fact check, the wealthiest Americans "pay at a higher rate, and as a group, they contribute a much larger share of overall taxes collected by the federal government."²⁰ The tax policies in question are also a form of double taxation: a 15 percent capital gains and dividends tax applies to income that has already been taxed at the 35 percent corporate rate. As a final practical matter, the Administration has failed to advance an actual proposal to implement the "Buffet Rule", offering instead tax policy by talking point, emblematic of an evasiveness to budgeting that has defined this President and his party.

Inequities in the tax code (for instance, the fact that tax loopholes are disproportionately used by the wealthy) should be addressed through fundamental tax reform, not through one-off punitive measures that seek to further divide Americans.

MORE SPENDING

In a reprise of the failed stimulus program, the President proposes nearly \$182 billion in new spending. As with the first failed stimulus, we can expect very little bang for the deficit-financed buck, as government does a poor job of allocating resources to their most efficient and productive uses (see, for example, the recent bankruptcy of stimulus recipient Solyndra). Meanwhile, growing federal debt and looming federal tax increases will fuel uncertainty about fiscal problems and discourage businesses from making the kinds of long-term investments that create jobs.

Increases Federal Intrusion into Local Education

- President Obama proposes to spend another \$30 billion to support education efforts of state and local governments. This new spending comes on top of nearly \$100 billion given to states in the failed stimulus law of 2009. At the time, advocates promised a one-time expansion of the federal government, and not a new entitlement for states.
- In August of 2010, Congress passed another "EduJobs" bill that appropriated an additional \$10 billion to states to provide immediate cash to pay teacher salaries and benefits for the recently-completed 2010-11 school year. However, states have not yet been able to spend this money. U.S. Department of Education

²⁰ Ohlemacher, Stephen. "FACT CHECK: Are rich taxed less than secretaries?" *Associated Press*. September 20, 2011.
<http://www.google.com/hostednews/ap/article/ALeqM5iP3lhS4ZQ-UhyUvFfUgdPCiu-jJA?docId=47a565563a294b2bad96544a7foddc1b>

data shows that, as of the beginning of September, only about 60 percent of these funds have been spent.²¹

- President Obama proposes another expansion of the federal government into local education through a new \$25 billion program to fund school construction. While everyone supports responsible improvements to the educational environments of America's children, school construction has always been a fundamental responsibility of state and local governments. Turning on yet another spigot of federal money is the opposite of what's needed given federal deficit and debt problems.

Adds More Spending for "Shovel-Ready" Projects

- On top of the \$48 billion given to US Department of Transportation in the 2009 stimulus law, the President is proposing to grant another \$50 billion to this agency – roughly the same amount of money with allocations and requirements that mirror the first failed stimulus. This proposal includes an additional \$4 billion for dubious high-speed rail spending and \$2 billion for Airport Improvement Program grants, a program that has already seen a 47 percent spending increase over the last decade. The \$50 billion in new spending comes *on top* of annual appropriations spending, in which the base budget of the Department of Transportation enjoyed 99 percent increase since 2009.
- After turning the Department of Education into the nation's 7th largest bank last Congress with the government take-over of student loans, the President wants to do the same with infrastructure. His proposal grants \$10 billion in start-up money to establish the American Infrastructure Financing Authority (AIFA). The AIFA would provide direct loans and loan guarantees through a new quasi-government corporation that would bypass congressional checks and balances and put the government directly into the business of picking infrastructure winners and losers.
- While infrastructure spending is important, its capacity as an economic stimulus has been vastly oversold. It is also unclear how Congress will be able to prevent duplication and inefficiencies between the programs and projects funded by the AIFA and the myriad existing infrastructure programs at the DOT and elsewhere. Moreover, when local infrastructure decisions are made at the Federal level, they more often result in higher costs, less flexibility, and are never immune from politics.
- Another disappointing aspect of this proposal is that it specifically directs CBO to calculate the new infrastructure bank's potential costs to taxpayers under the Federal Credit Reform Act of 1990 (FCRA), which fails to account for the full risk the federal government would bear with these loans. In recent legislation that has exposed the federal government to market risk, Congress has asked CBO to score these programs on a "fair value" basis, which more accurately shows the true cost of these programs to taxpayers.

Missed Opportunity for Federal Job Training Reform

- The President's proposal does not address the notorious waste, fraud, abuse, and massive duplication that exist in the 49 existing federal job training programs that cost taxpayers between \$14 billion to \$18 billion annually. It simply adds new requirements, complexity, and spending to an ineffective system²².

²¹ Education Jobs Fund. Accessed September 17, 2011. <http://www.educationjobsfund.gov/Pages/home.aspx>

²² U.S. Government Accountability Office. "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue." June 1, 2011. <http://www.gao.gov/new.items/d11714t.pdf>

BUDGET GIMMICKS

Tax Increases Hidden In "Mandatory Savings"

- Unfortunately, the extent to which the President's proposals actually cut government spending is overstated because of the rampant use of budget gimmicks. Hidden in the President's estimate of \$257 billion of mandatory savings outside of health care are: \$30 billion in higher taxes on the financial sector; \$19 billion of savings from the off-budget Postal Service; and \$7 billion of program integrity savings that CBO has determined do not save anywhere near the amounts claimed by the Administration. Once these gimmicks are stripped away, the President is proposing only \$200 billion of savings from the over \$5.6 trillion in mandatory spending planned over the next decade.

The Return of the War Gimmicks

- The President's proposal claims over \$1 trillion from a planned reduction in war spending, taking advantage of a budget convention that inflates costs that were explicitly meant to be temporary. By claiming these savings against a baseline that was never realistic, the President doubles the apparent size of the spending cuts in this proposal.

POTENTIAL AREAS FOR COMMON GROUND

The core failure of the President's plan is its lack of seriousness in acknowledging what he calls "math." The inadequacy of the proposal however, should not distract observers from the range of policy suggestions offered by the President – most of which would make our economic situation worse. Before discussing the proposed increases in taxes and spending, it is worth highlighting a few common sense proposals that are long overdue and worthy of consideration.

The President's newest budget proposal does include several savings proposals that are similar to ideas included in the House-passed budget resolution, including the following areas:

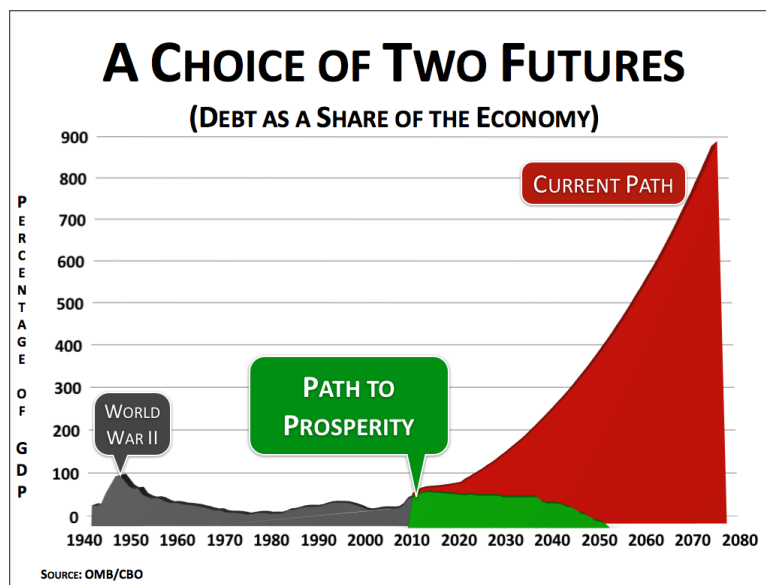
- **Agriculture:** The President's deficit-reduction plan includes reforms to agricultural support programs that reduce spending by \$31 billion over the next 10 years. This number is similar to the target established by the House-passed budget, and the President should be commended for agreeing with House Republicans that agricultural commodity and insurance programs should be reformed. Unfortunately, the President also proposes to extend the Supplemental Revenue Assistance Program [SURE], but only through 2016, after which the program is scheduled to expire. This is known as a 'cliff' which inflates the savings the President is claiming by not counting the full costs of extending the SURE program, while claiming 10-year savings for other proposals.
- **Civilian Retirement:** The President's deficit reduction plan includes reforms to the retirement program for federal civilian employees that would increase the amount employees contribute toward their retirement benefits, as well as eliminating the Federal Employee Retirement System (FERS) annuity supplement for new workers. Similar reforms were included in the House-passed budget. While it is good that the Administration has found savings within this program, more should be done. Outside experts have found that federal employees enjoy a compensation premium of approximately 61 percent. We can clearly find additional savings within the federal workforce, while still attracting the highly skilled individuals the federal government needs.

THE DEBATE AMERICA DESERVES

It has been 873 days since Senate Democrats last passed a budget.²³ The President and his party's leaders have yet to put forward any specific solutions that actually lift the crushing burden of debt.²⁴ In sharp contrast, the U.S. House of Representatives advanced an actual budget that strengthens the social safety net, tackles the entitlement crisis, pays off the debt, and charts a path to economic growth and job creation. The House passed this plan by its statutory deadline of April 15, 2011.²⁵ Beyond meeting their legal obligation to pass a budget, members of the House met their solemn commitment to those they serve to confront the real debt crisis facing this nation.

The drivers of the debt are directly addressed in the House-passed budget, as government spending is brought under control and Washington's fiscal house is put in order. Under its status quo projections detailed in its 2010 Long-Term Budget Outlook, CBO estimates that the federal government's debt will grow to 344 percent of the economy by 2050. In that same year, CBO estimates debt under the House-passed budget will have dropped to 10 percent (see Figure 5).²⁶

Figure 5



Time and again, Washington celebrates proposals that claim to address the debt, while ignoring the drivers of the debt. Time and again, Washington reveals its lack of seriousness. A true "grand bargain" cannot duck from healthcare's merciless arithmetic.

As the federal government nears the limits of its borrowing authority, policymakers should cut what government spending they can and do so in a responsible manner. But when it comes to addressing the larger debt crisis before us, too many in Washington are still not having the debate the American people deserve.

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.

²³ "Senate Democrats' Legal – And Moral – Abdication of Leadership." House Budget Committee analysis. July 8, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=252148>

²⁴ "CBO: President's 'Framework' Not A Serious Budget Plan." House Budget Committee analysis. June 23, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=248433>

²⁵ "U.S. House of Representatives Advances The Path To Prosperity." April 15, 2011.

<http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=237237>

²⁶ House-passed FY2012 Budget Resolution – Summary Tables – <http://www.cbo.gov/doc.cfm?index=12212>